

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

HB 316 - SB 1902

February 21, 2011

SUMMARY OF BILL: Increases, from \$1,500 to \$1,650, the maximum value sales tax exemption on the retail sale of computers purchased during the annual sales tax holiday occurring the first weekend of each August.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue - \$39,300

Increase State Expenditures - \$14,000

Assumptions:

- According to the Department of Revenue, the loss of state sales tax revenue attributable to the sale of computers during the 2010 sales tax holiday was approximately \$3,100,000.
- The average price of computers purchased during the 2010 sales tax holiday was approximately \$1,000.
- The number of computers purchased during the 2010 sales tax holiday was approximately 3,100 (\$3,100,000 / \$1,000). This number is assumed to remain constant in subsequent years under current law.
- A state sales tax rate of 7.0 percent and an average local option sales tax rate of 2.5 percent.
- The fiscal impact of this bill is dependent upon two factors: (1) the number of individuals that will purchase computers during future sales tax holidays for prices between \$1,400 and \$1,500 under current law, that will upgrade to computers priced more than \$1,500, but no more than \$1,650, as a result of this bill, and (2) the number of individuals that will purchase computers during future sales tax holidays for prices exceeding \$1,500, but no more than \$1,650, under current law (these purchases are not exempt under current law, but will become exempt under this bill).
- Twenty percent of all computer purchases made during the 2010 sales tax holiday (or 620) were for prices between \$1,400 and \$1,500 (at an average price of \$1,450). These numbers are assumed to remain constant in subsequent years under current law.
- Seventy percent of individuals that will purchase computers for prices between \$1,400 and \$1,500 (at an average price of \$1,450) under current law (or 434) will upgrade their

computer purchases during future sales tax holidays to an average price of \$1,600 per computer as a result of this bill. The recurring decrease in state sales tax revenue will be \$4,557 $[434 \times (\$1,600 - \$1,450) \times 7.0\%]$.

- The number of individuals that will purchase computers during future sales tax holidays for prices exceeding \$1,500, but no more than \$1,650 (at an average price of \$1,600), is estimated to be ten percent of total number of computers sold during the 2010 sales tax holiday (or 310). The recurring decrease in sales tax revenue will be \$34,720 $[(310 \times \$1,600) \times 7.0\%]$.
- The total recurring decrease in state revenue will be \$39,277 $(\$4,557 + \$34,720)$.
- Pursuant to Tenn. Code Ann. § 67-6-710(h), the state will reimburse local governments for any loss of revenue attributable to the annual sales tax holiday.
- The increase to state expenditures to hold local governments harmless from loss of revenue will be \$14,028 $\{[434 \times (\$1,600 - \$1,450) \times 2.5\%] + [(310 \times \$1,600) \times 2.5\%]\}$.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

/rnc